

# **Fairness and Economic Recovery in Southern Europe**

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# Various dimensions of 'fairness'

## **Access to dignified life and fair opportunities:**

- Employment (not only income but social integration)
- Fair pay and working conditions
- Health
- Education
- Retirement

## **Incidence of Poverty**

**Inequality** (in income, wealth, opportunities)

## **Most relevant in Europe and Southern Europe today:**

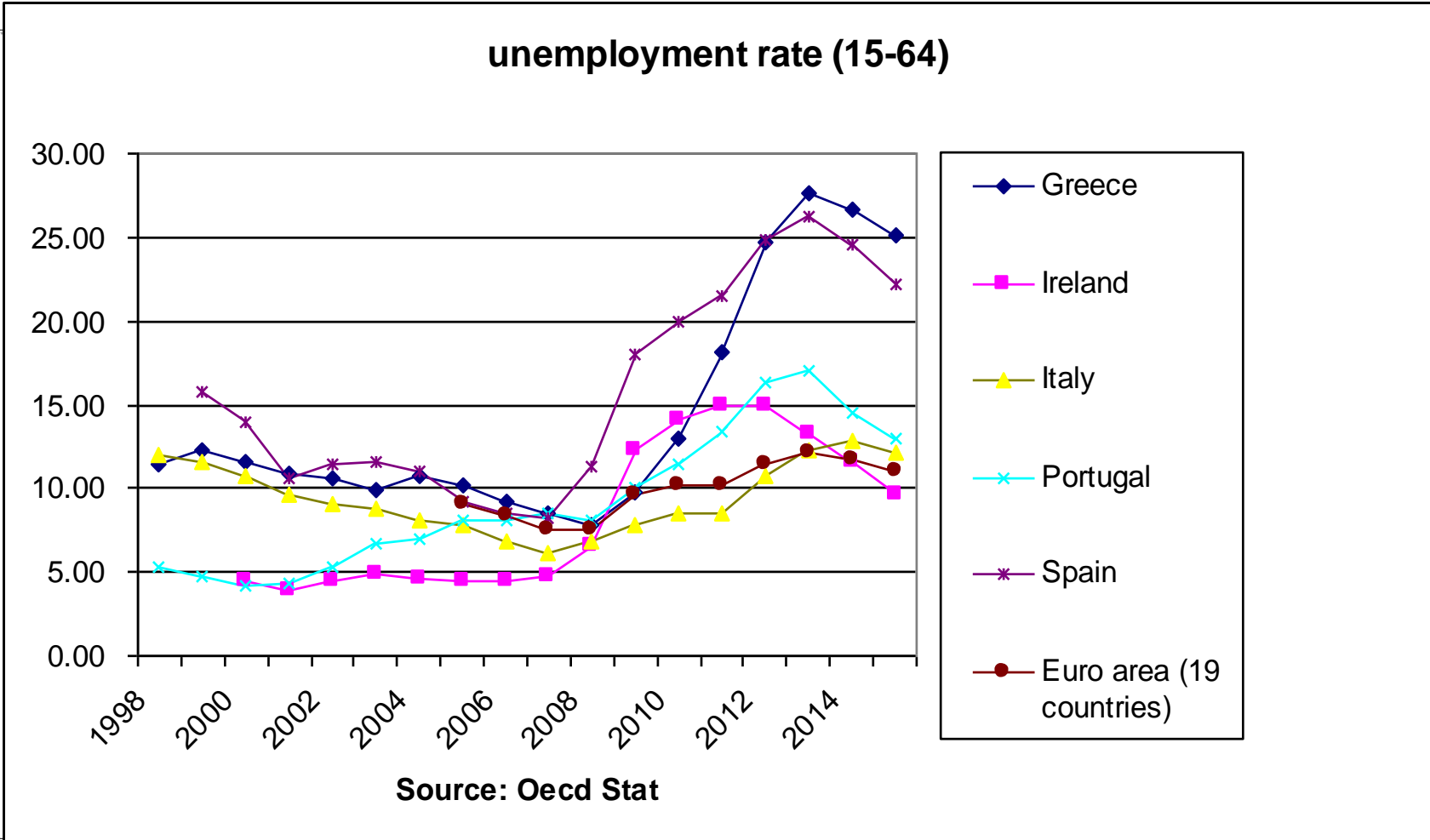
- Unemployment
- Fair pay and working conditions
- Poverty
- Access to health (education, welfare)

## **Maint points in what follows**

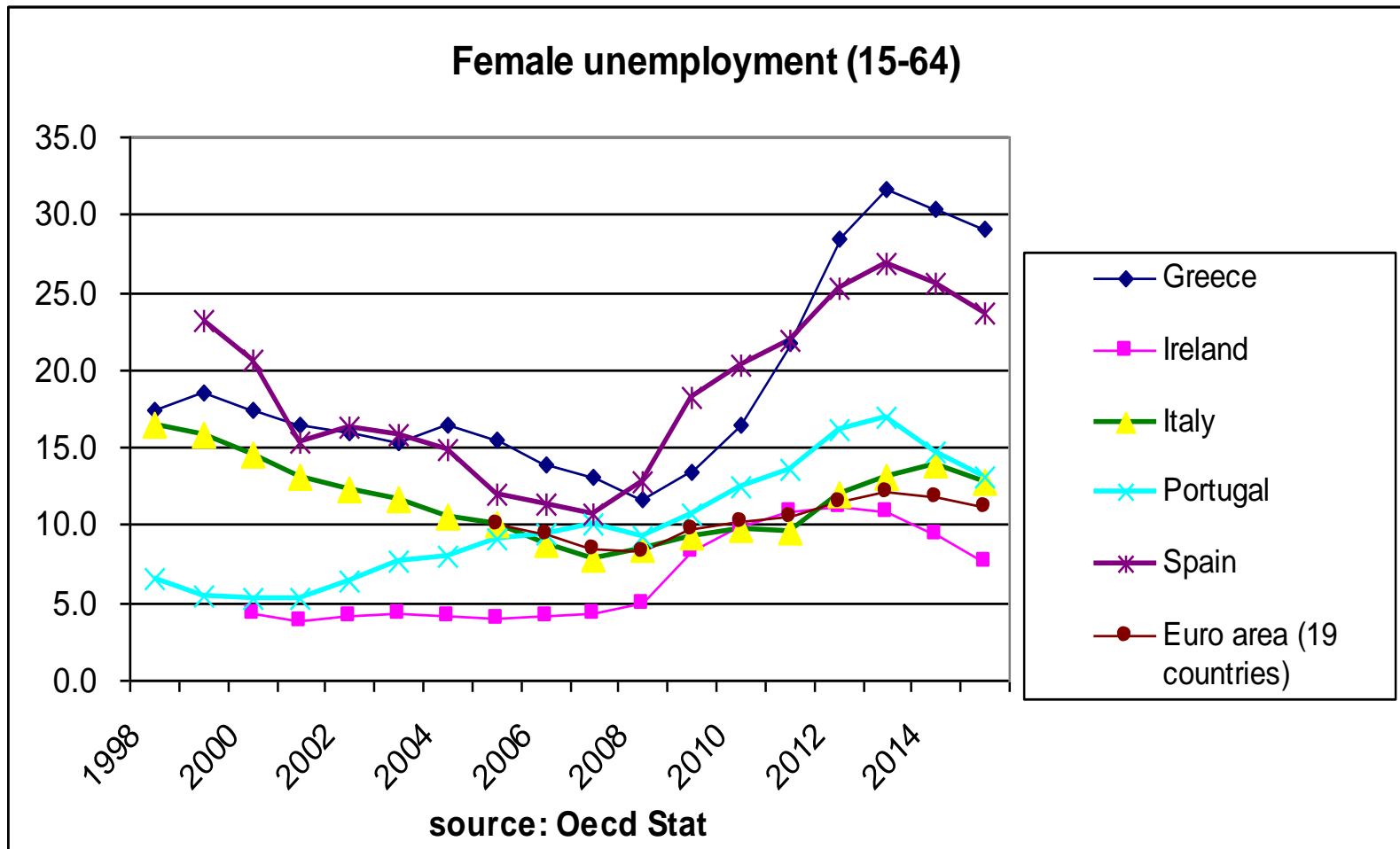
### **Some data on 'Southern' European countries:**

- Unemployment, poverty, low wages:  
largely interconnected problems
- Growth and employment, and how difficult  
it is to achieve them

# Surging unemployment after the crisis

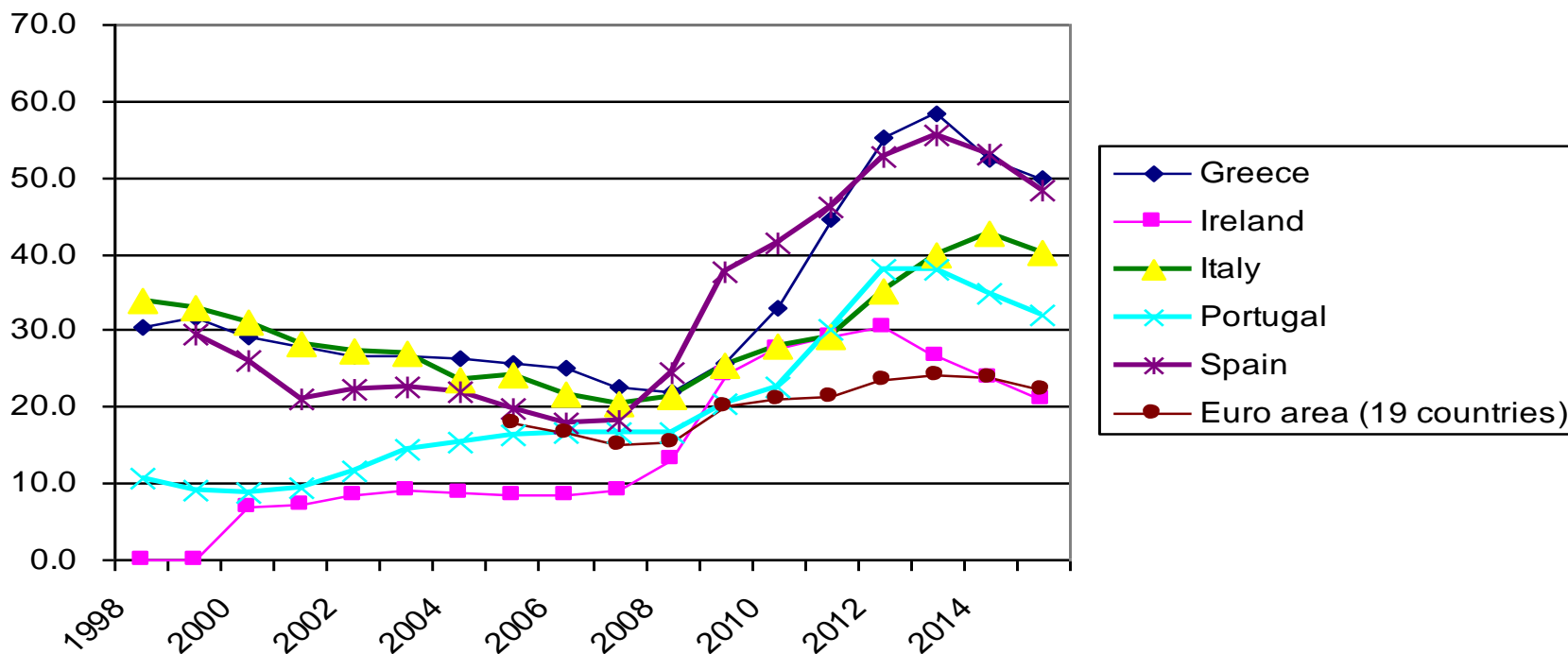


# Women more hit by unemployment in Greece – no great differences elsewhere



# Extremely high rates for the youth, especially in mediterranean countries

## Youth unemployment (15-24)



Source: Oecd stat

EMPLOYMENT, persons	2006	2007	2014
Euro area (12 countries)	100	101.84	99.62
Germany	100	101.80	107.59
Ireland	100	104.96	94.34
Greece	100	101.54	82.44
Spain	100	103.23	87.19
Italy	100	101.06	97.22
Portugal	100	100.07	88.83

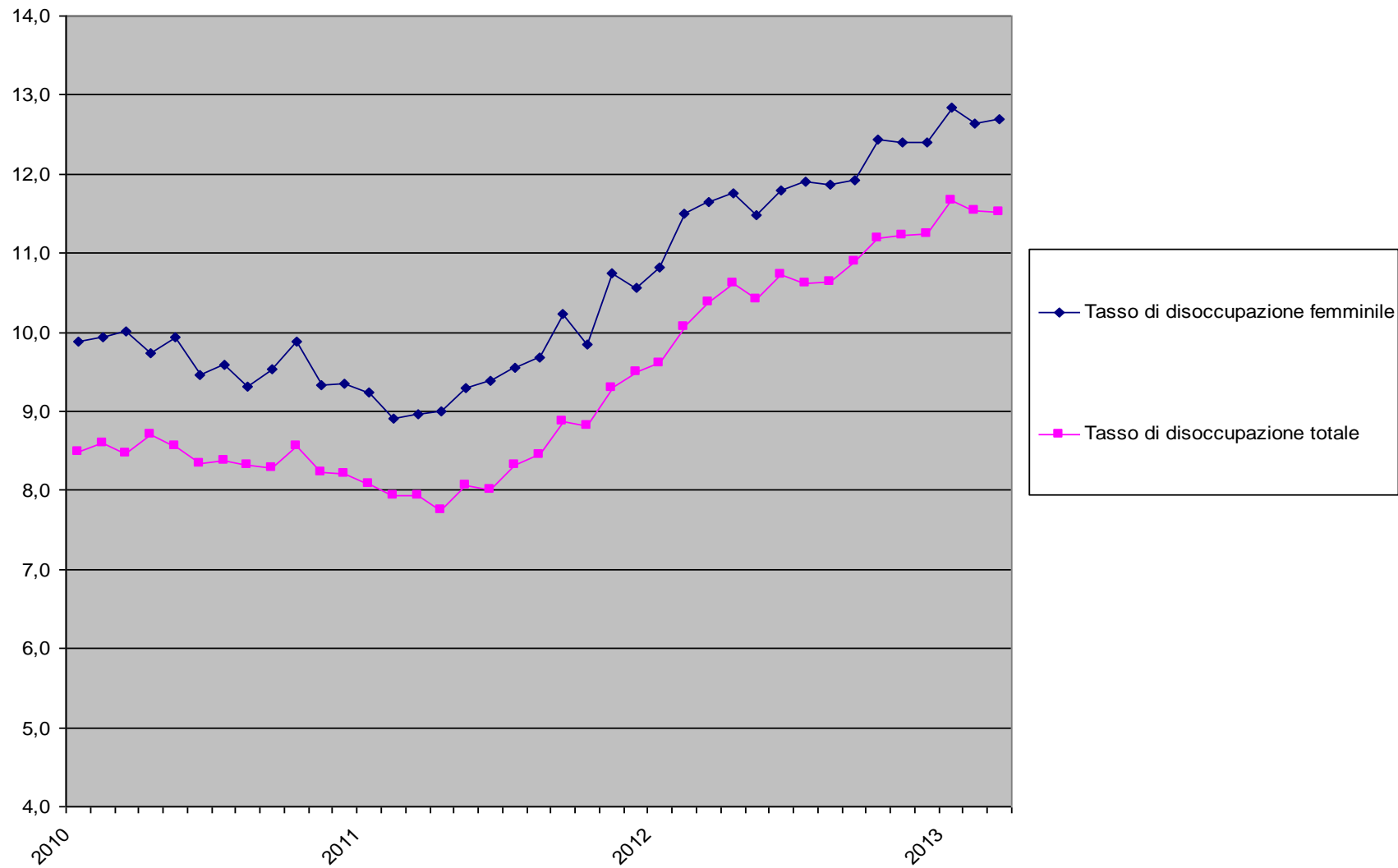
- Note that part of unemployment reduction in Ireland (and Portugal) is due to migration: employment is still 10 perc. points below pre-crisis
- the Irish loss is roughly as much as in Portugal; less than in Spain and Greece, more than in Italy
- Hence: not so much a matter of labour market regulation or compliance with ‘reforms’ (Ireland being a ‘model’ of compliance with IMF and Troika)



# Very high youth unemployment in Italy:

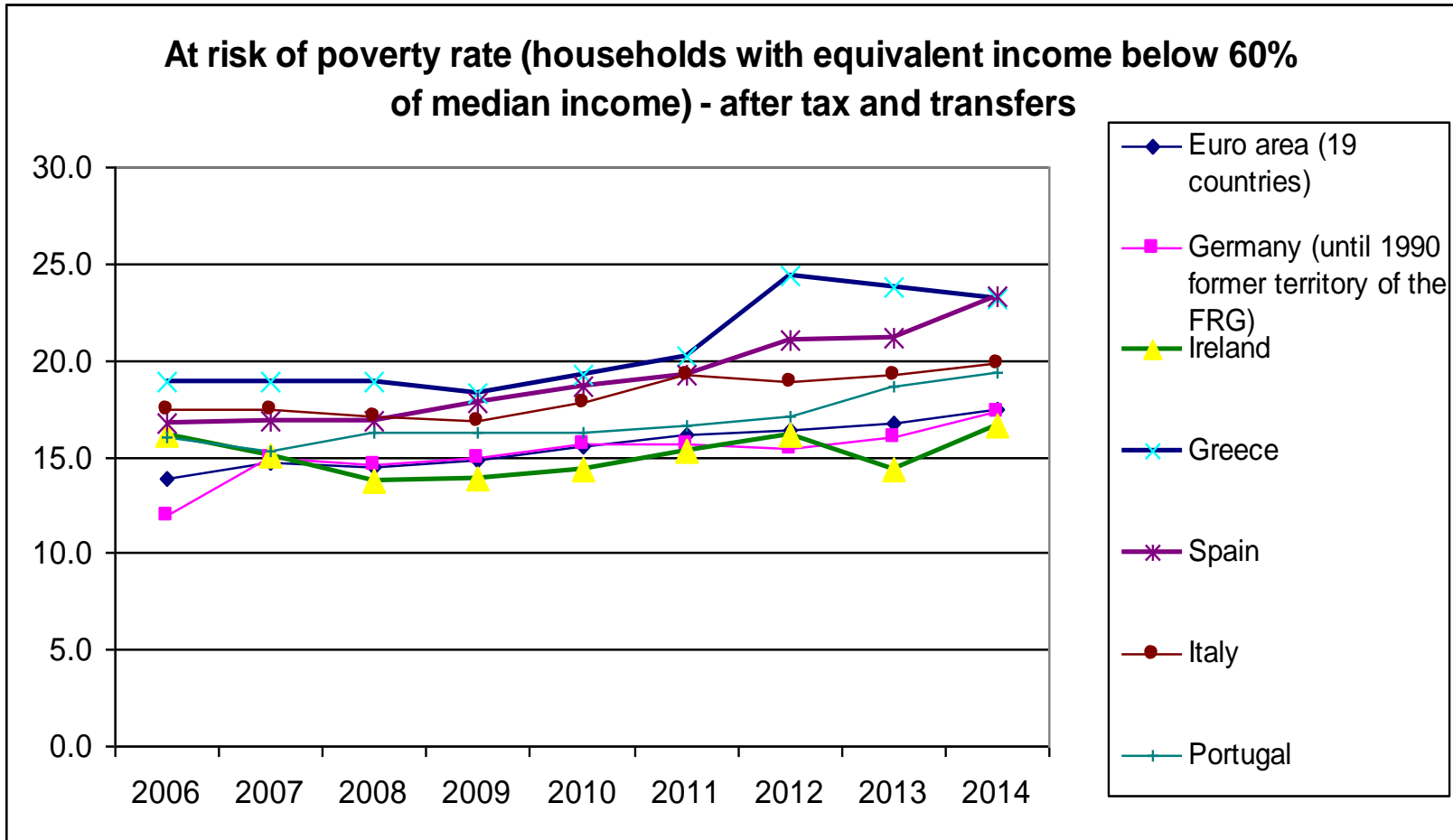
- Historically somewhat high as a proportion of total unemployment;
- but **pension reform** carried out in 2011 as part of austerity package has very much increased unemployment in general and particularly youth unemployment by completely blocking labour force turn-over.
- Again not a matter of labour market 'rigidity' versus flexibility

# Total and female unemployment rates in Italy 2010-2014



# Increasing poverty after the crisis

(relative concept – the threshold falls with the crisis)



# Unemployment and poverty strongly associated (poverty: below 60% of median income)

## At risk of poverty rates 2014

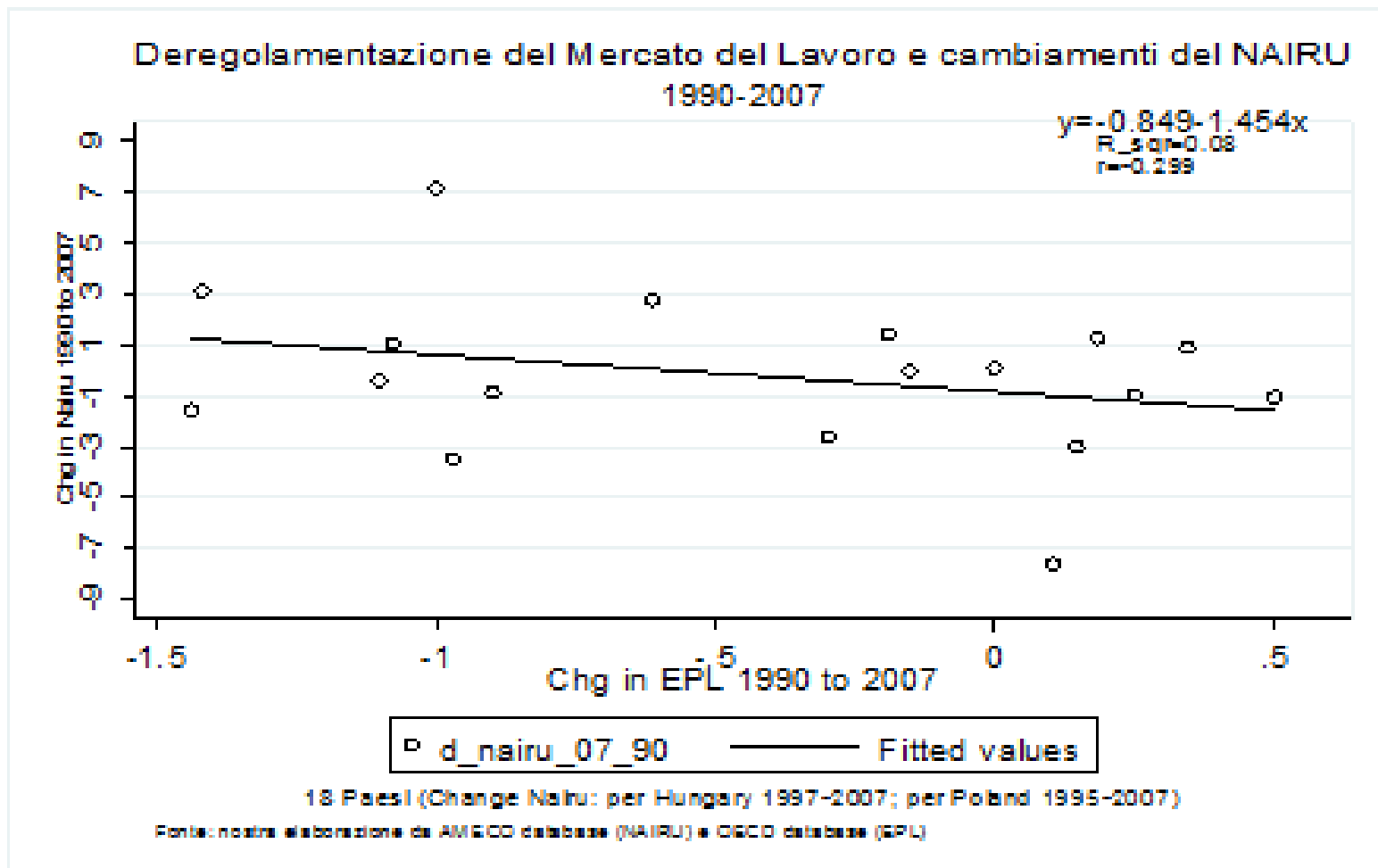
	POP	EMPLOYED	UNEMPL	RETIRED	EMPLOYEES
Euro area (19 countries)	17.5	9.4	47.0	10.3	7.8
Germany	17.3	9.9	67.6	22.4	9.2
Ireland	16.6	5.5	35.7	17.7	4.2
Greece	23.2	13.2	46.0	6.8	8.5
Spain	23.3	12.6	48.1	6.5	9.9
Italy	19.8	11.1	48.2	7.0	8.7
Portugal	19.4	10.7	40.6	11.2	7.9

## Some pointers:

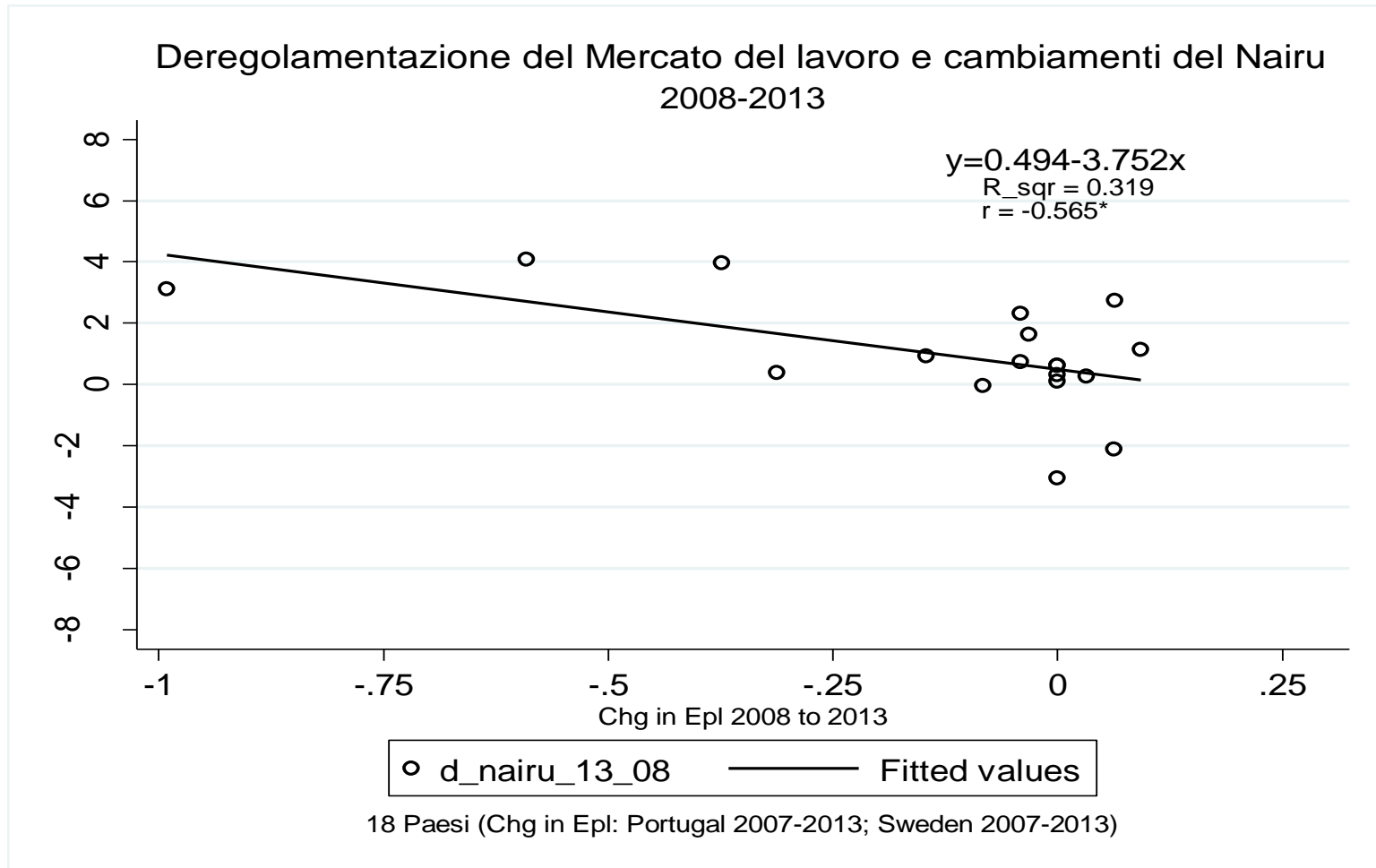
- Poverty here is a relative concept and value of threshold differs across countries (IT 2013 = 1000 e. for 2 persons hh)
- threshold varies over time (falls with the recession) – despite this, poverty is increasing
- Unemployed have very high incidence of poverty
- Followed by retired
- High percentage of poors among employed and employees: the working poors are with us in Europe

# Deregulation a remedy to Unemployment? NO

*no significant statistical relation between structural unemployment and Employment protection legislation; and the sign is 'WRONG'*



# After the crisis: the countries with *more* labour market deregulation in 2008-2013 had higher *increases* in *unemployment*

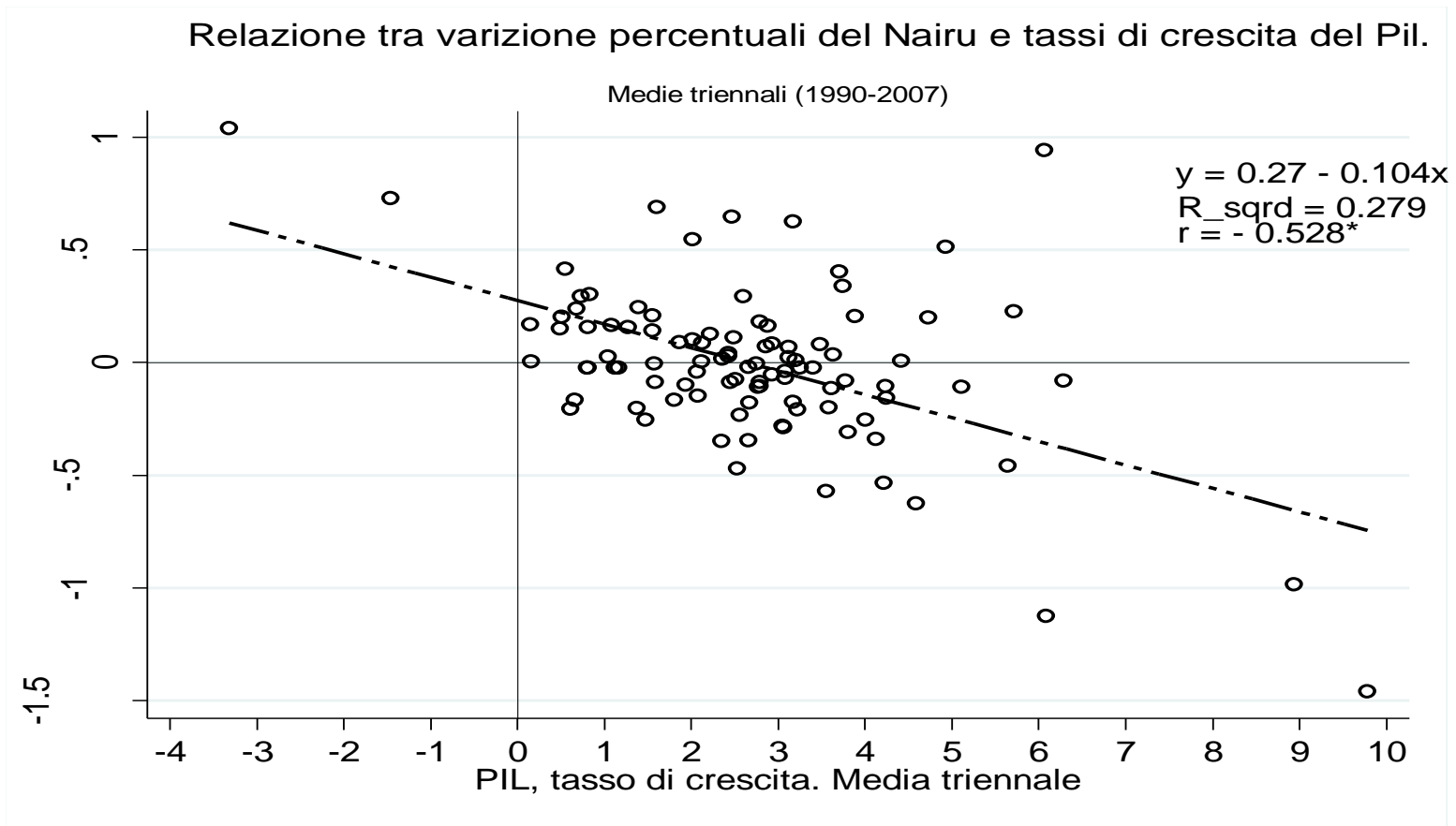


- Not only the relationship between deregulation of labour market and unemployment is highly questionable on theoretical grounds, but since the 1990s a large number of empirical studies by individual scholars and international institution has shown the relationship not to be there or even to have the opposite sign than expected (by main stream economists)
- Persistent advocacy of ‘structural reform’:  
**not grounded on robust analyses and fact checking**

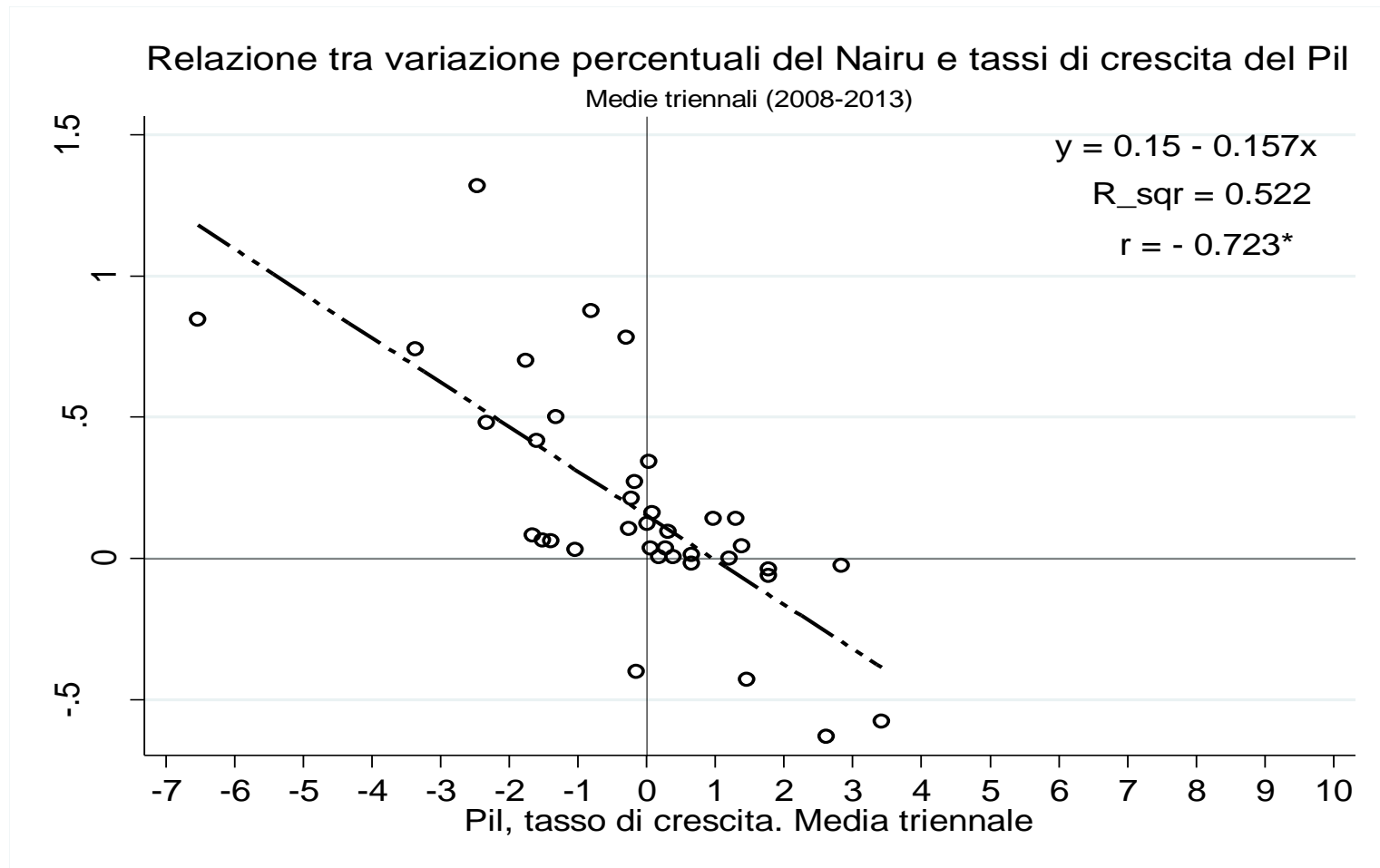


# Changes in 'structural' unemployment and in GDP 1997-2007

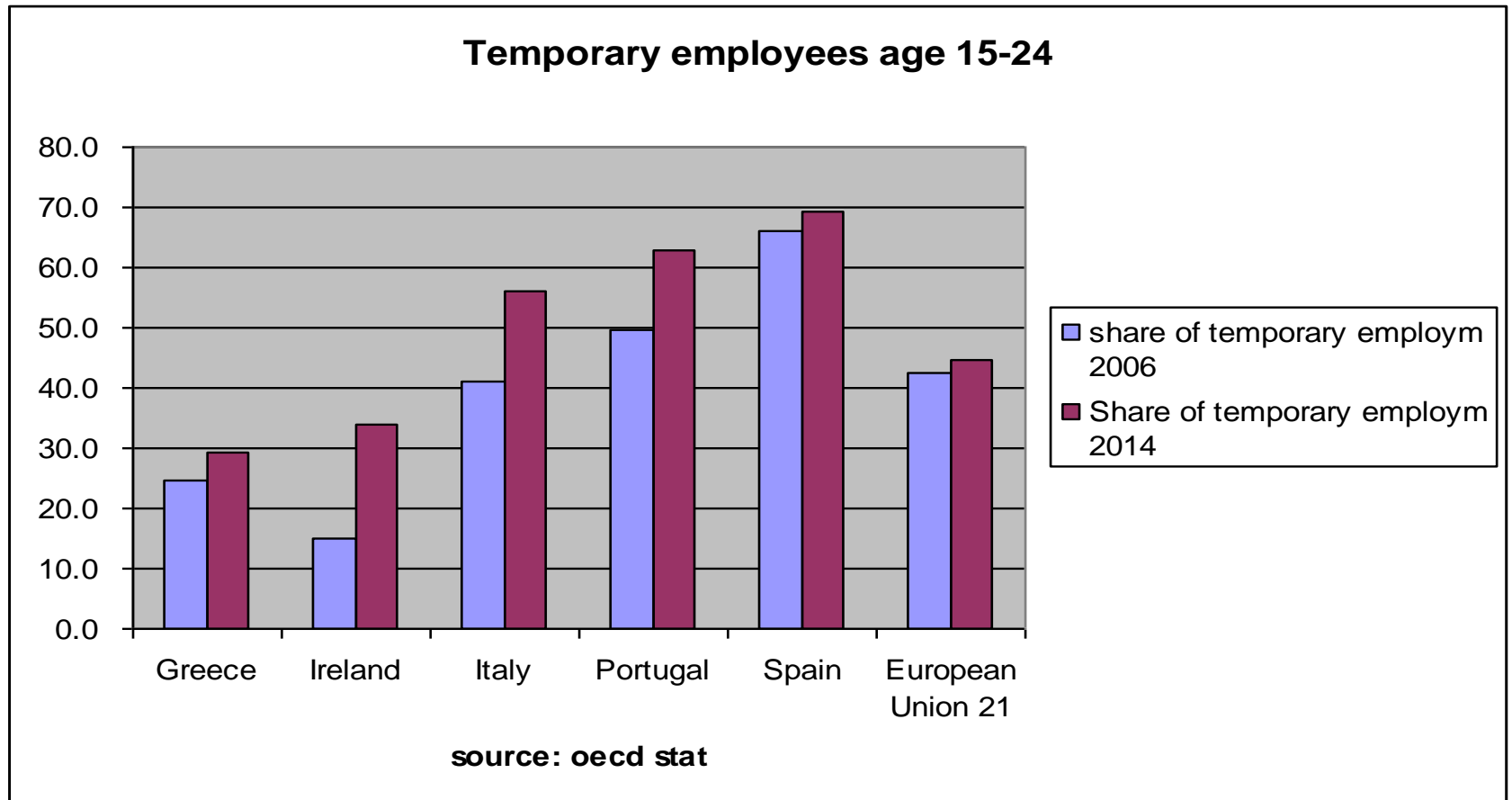
*'Structural' unemployment largely depends on changes in GDP*



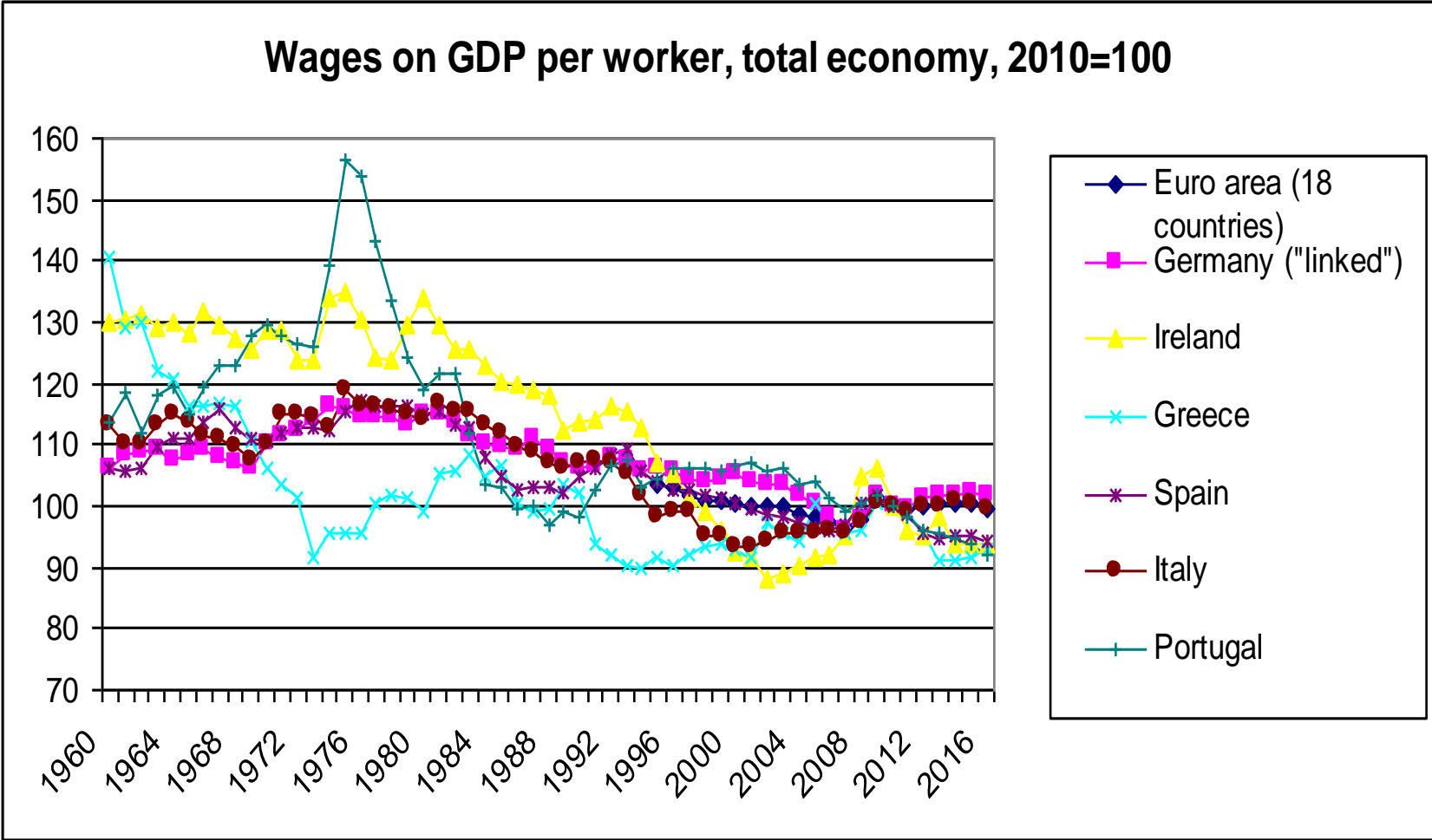
# Very strong statistical relationship between GDP growth and structural unemployment after 2008



# Job insecurity increasing especially for the youth

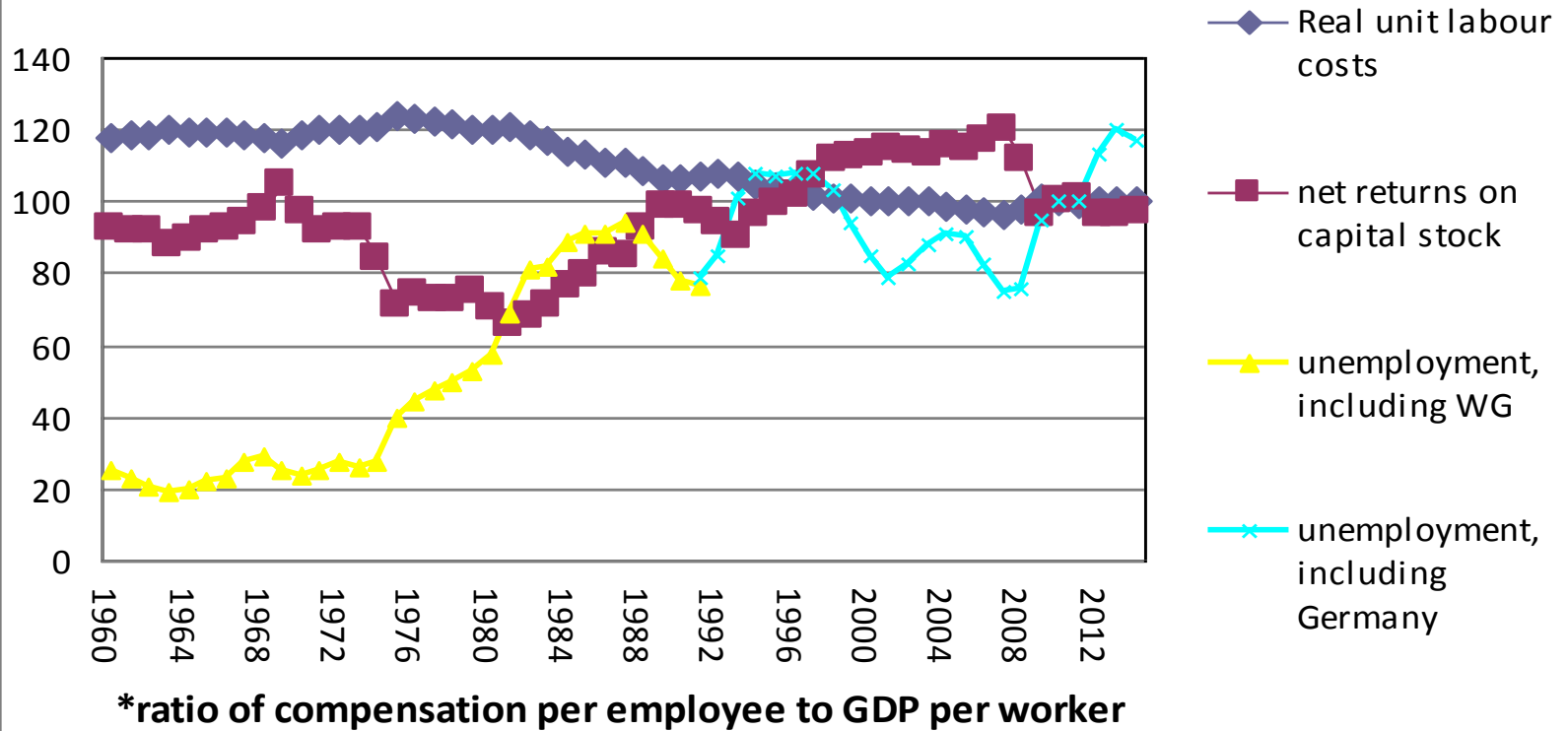


# Pay is falling with respect to productivity since the 1980s



# But: falling wages and increasing profits not a cure for unemployment

**Fig. 2. Real unit labour costs,\* returns on capital and unemployment. EA 12**  
Indexes 2010 = 100; source: ameco

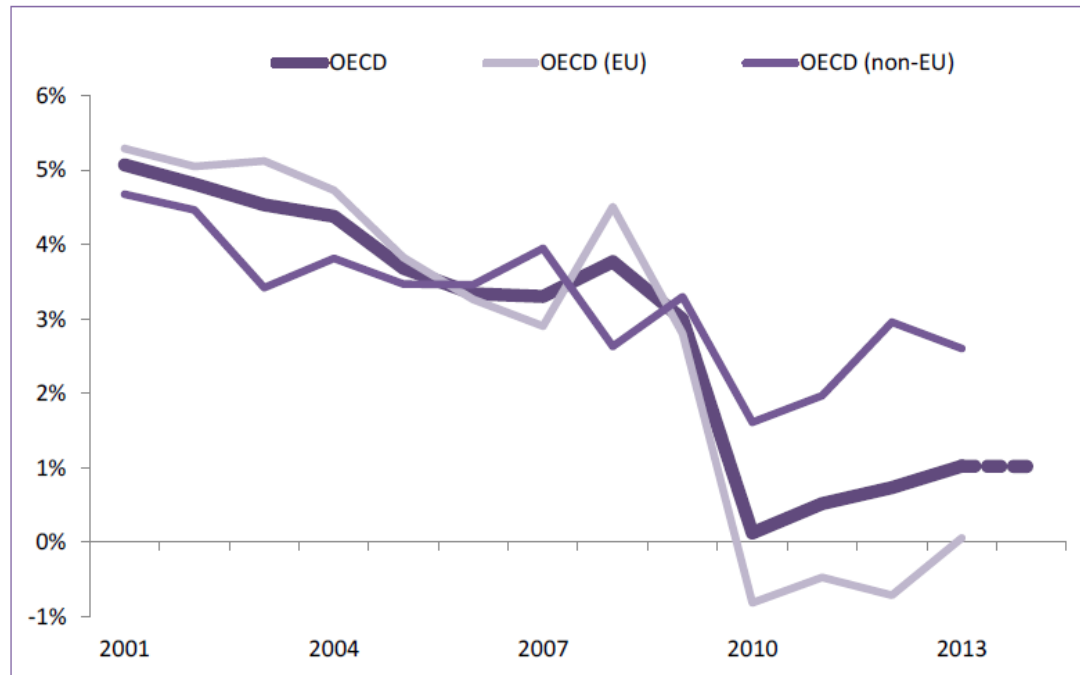


## Summing-up

- **Main problems considered:**
- Unemployment (and associated high poverty incidence)
- Job precariousness
- Working poor
- **Remedies:**
- **Low wages, high profits, flexible labour market do not help**
- What is needed is GDP growth and employment growth

NOTE: High unemployment negatively affects real wages, growth would help income redistribution

# Another dimension of fairness: access to health services public expenditure on health falling in EU

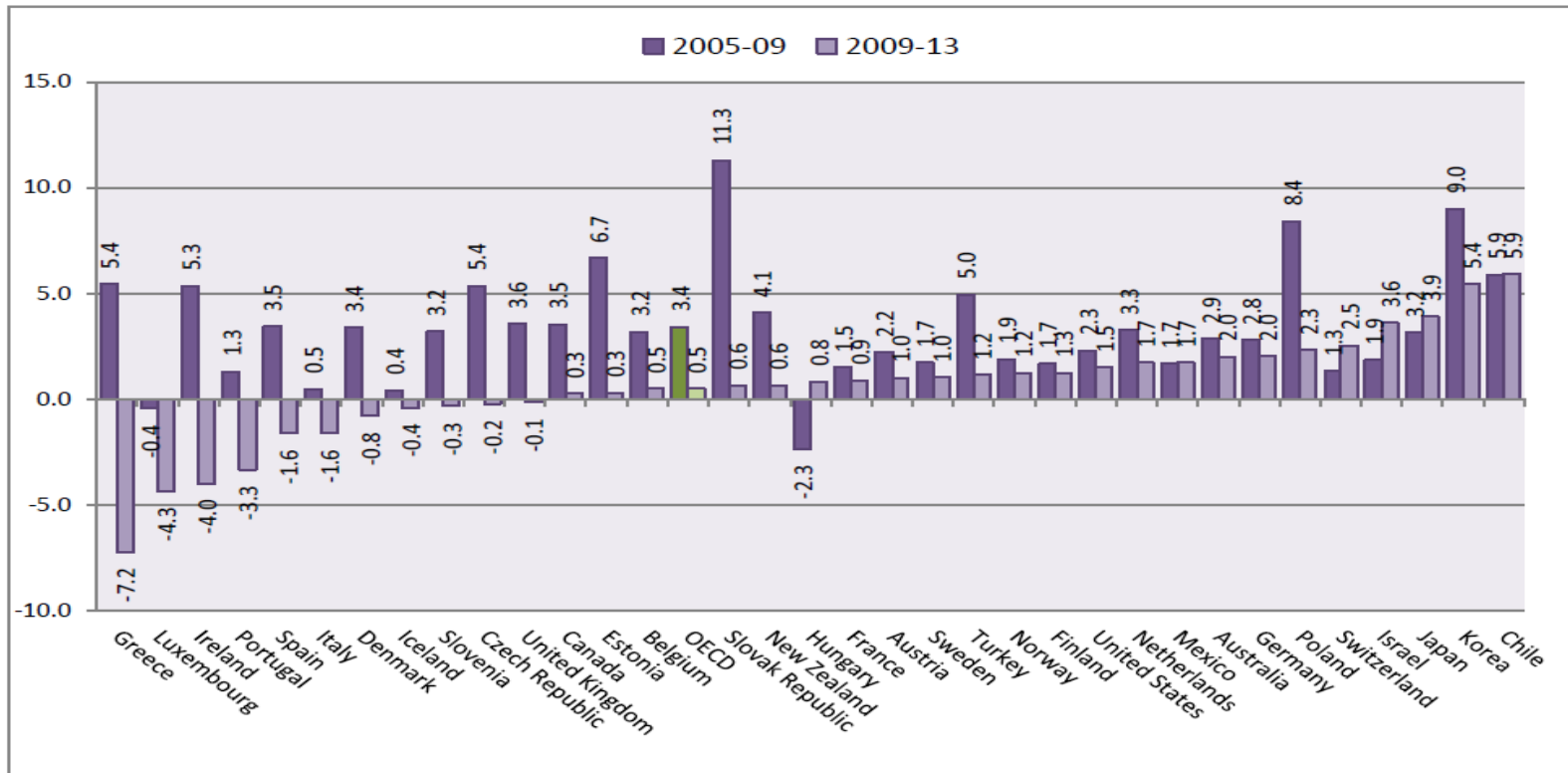


Health Statistics 2015

Health Spending @ OECD Health Statistics 2015

# Public health expenditure falling in 'southern' Europe 2009-2013, where per capita levels are already lower than in the rest of EU

Figure 3. Average annual growth in per capita health spending, in real terms, OECD countries, 2005-2013



Source: OECD Health Statistics 2015



## Alarm from medical studies: Titles in the news

- **Doctors launch awareness campaign on ‘apocalyptic’ Greek healthcare**
- By [Manon Flausch](#) | [EurActiv.fr](#) |
- *Child mortality and premature births have increased dramatically in Greece since the establishment of austerity measures.*
- **Unemployment and austerity 'increases cancer mortality'**
- *Countries with universal health coverage have fewer casualties, according to **Lancet** study of cancer deaths (The Guardian)*

# **GDP growth is needed to generate employment and maintain welfare**

- State of the art in Economics: **two alternative theories** of growth
- **1) Supply-side**: labour force and ‘human capital’, innovation, savings
- **2) Demand side**: aggregate demand and particularly autonomous components: public spending, export, credit financed expenditure and income distribution: private investments, human capital and innovation follow, cannot lead growth

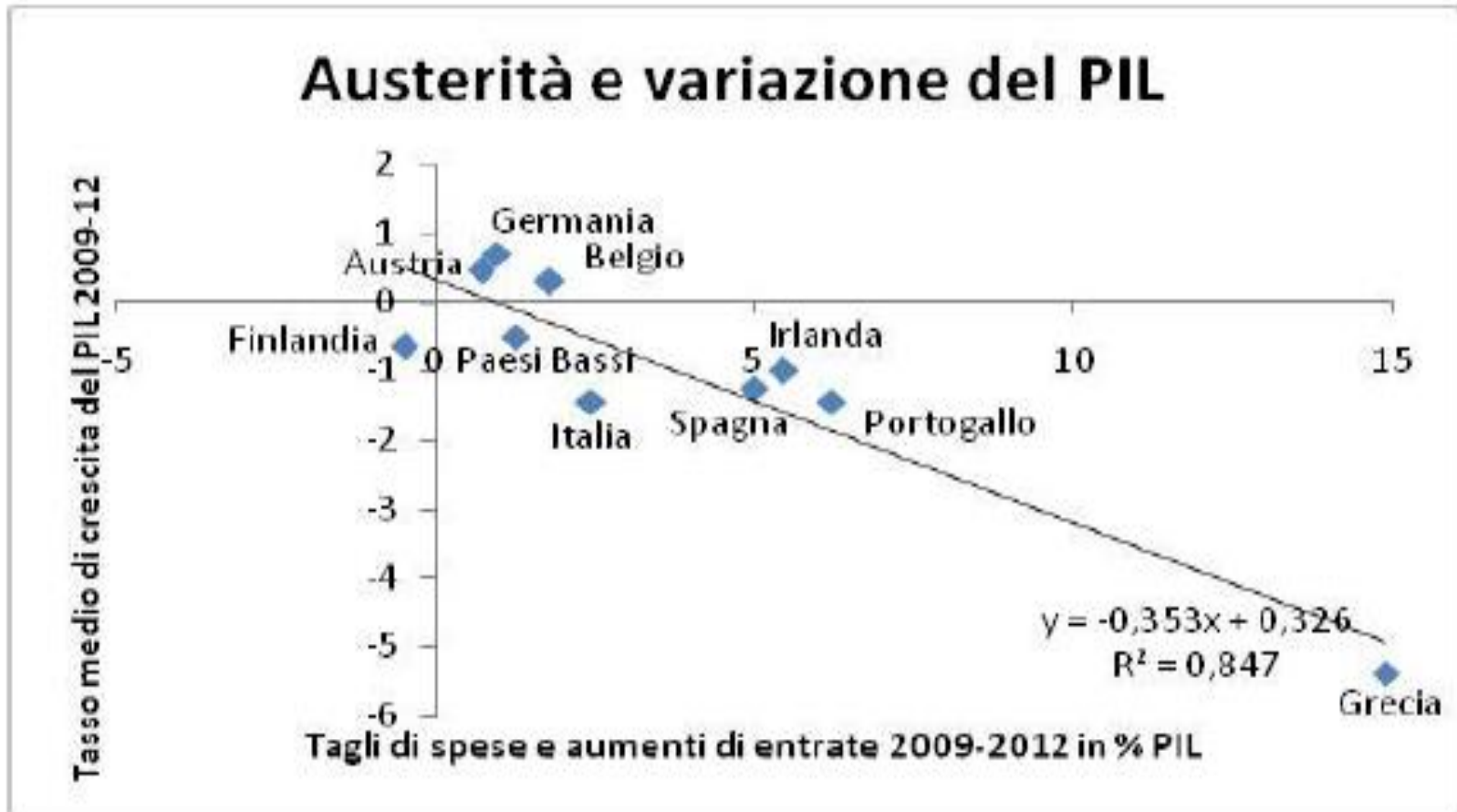
# What determines investments?

- Demand – led growth: aggregate private investments depend on degree of utilization of existing fixed capital (strong support from empirical evidence)
- Degree of utilization depends on demand growth – production adjusts to demand

Extension of Keynesian principle that aggregate demand may differ persistently from ‘potential’ output.

(for example: in Italy industrial production -25% since 2007; in Greece total GDP – 25% since the crisis)

# Austerity and GDP growth in the Eurozone 2009-2012



# Policies and constraints

- No serious recovery in employment without a change in policies: income redistribution and public expenditure are essential ingredients
- ‘there is no money’ obviously a FALSE constraint : ECB is desperately attempting to ‘create money’ by means of QE - unsuccessfully.
- ‘Money’ can be created (i. e. circulate) only if it finances expenditure.
- Monetary policy must be coordinated with fiscal budget policies (i.e. finance public expenditure) in order to be effective

## But there is a problem:

- Trade imbalances in 'peripheral' countries and concentration of production in stronger areas a REAL and very difficult problem in a trade and monetary union.
- (historical *examples: East Germany; Southern Italy; Southern Spain – despite national unity, uniform welfare provisions, very significant fiscal transfers, sustained support to development and industrialization*)

- Asymmetries are very difficult to overcome. If the euro survives, policies should be designed to strengthen infrastructures and productive structure in ‘peripheral’ areas.

- A ‘federal’ state and fiscal transfers is not a necessary pre-condition (it is not feasible anyway in a short time, nor it is perhaps desirable), but:
  - more autonomy and budget flexibility must be given to national governments, and permission to develop industrial policies
  - ECB must guarantee stability of public bonds and direct or indirect financing of public expenditure without conditionality on austerity and ‘reforms’
  - within eurozone trade imbalances must be financed through T2 (not private banks) and must *not* become an issue
- In addition: coordination of expansive macroeconomic and distributive policies is necessary (i.e. Germany must expand domestic demand and stop pursuing competitive deflation)



## What can individual government do under present conditions?

- Exploit the fact that increasing taxation (particularly on high incomes) and expenditure by the same amount has positive effects on GDP
- Favour income redistribution
- However: external trade constraint difficult to deal with:  
External trade balance becomes negative in a single country that grows faster than trading partners

## From 'Dream' to nightmare....

- The Euro was not a very good idea to begin with:  
Monetary union among diverse economies creates major problems

If it survives, a major turn in policies and rules is needed, otherwise the european 'dream' will be transformed in nightmare of economic stagnation, high unemployment, destruction of the European social model, increasing regional and national inequalities and consequent increasing hostility and intolerance towards not only the immigrants from outside but also among peoples within the eurozone: we are already seeing the beginning of all this.

- Thank you for the attention